



WYOMING LEGISLATIVE SERVICE OFFICE

Issue Brief

13 IB 001

Date: October 17, 2013

Author: Matthew Sackett, Research Manager

Re: Hathaway Scholarship Award Increases

PURPOSE

Describe the potential impacts of increasing the Hathaway Scholarship award dollar amounts and the different factors that may affect the financial obligations of the Hathaway Scholarship Endowment Account in the future. Include a discussion of both the educational factors and financial factors to arrive at a potential dollar increase to all levels of the Hathaway Scholarship.

RESULTS IN BRIEF

The potential increase in the Hathaway Scholarship award dollar amounts is dependent on the expected number of total scholarship recipients each year, the percentage of each type of scholarship, as well as the income received from the Hathaway Scholarship Endowment Account. Since the success curriculum has only been in full implementation since the 2010-2011 school year, the total number of recipients, retention rates, and scholarship levels may deviate from the past performance, but in what direction is difficult to predict. If all factors are held constant except for enrollment projections, somewhere between a 13 and 34 percent scholarship level increase may be feasible. Although, a more conservative increase may be appropriate because of the uncertainty of a number of factors discussed below, which could increase actual Hathaway Scholarship Expenditure Account yearly obligations.

In addition, a larger increase to scholarship award amounts that matches the expenditures for scholarships with the income of the Endowment Account will not allow for growth of the Endowment Account corpus. This could potentially limit future scholarship award

increases, as well as reduce the overall potential income from the Endowment Account.

BACKGROUND

Hathaway Scholarship Accounts and History

The Hathaway Scholarship Endowment Account was created by 2005 Session Laws Ch. 190 (2005 Senate File 122), which established the account and created a committee to work through the interim on the structure of the scholarship program. The Endowment Account was funded primarily through federal mineral royalty diversions until the balance of the account reached \$400 million. This was achieved in April of 2008. Income received from investments of the Endowment Account corpus flow into the Hathaway Scholarship Expenditure Account, which is used each year to pay the scholarship money to the University of Wyoming and the Wyoming community colleges.

If there is more money in the Expenditure Account than Hathaway Scholarship payments for the year, the excess funds flow into the Hathaway Scholarship Reserve Account. If the scholarship payments exceed the income into the Expenditure Account, then money from the Reserve Account is used to balance out the remainder of the financial obligation. In this way the Reserve Account acts as a buffer between high income years and low income years.

If the Reserve Account has a balance greater than 3.75% of the five-year average market value of the Endowment Account or \$12 million, whichever is greater, then the excess funds are deposited back into the Endowment Account, thus increasing the corpus. An increase in the corpus

of the Endowment Account may allow for increased future earnings, and increases to scholarship award amounts in the future.

Educational Factors Affecting Hathaway Scholarship Expenditures

There are a number of factors that can affect the amount of money needed to pay for scholarships out of the Hathaway Scholarship Expenditure Account, but the primary factor is the total number of Hathaway Scholarships paid for in any year.

The total number of scholarships being paid for will be affected by future enrollment, the percentage of students qualifying for the scholarship, the percentage of students accepting the scholarship, and the percentage of students who retain the scholarship after starting college. Another important factor besides the number of scholarships being paid for in a year is the percentage of students receiving each level of scholarship.

Wyoming's future enrollment is expected to increase slightly over the next 10 years, according to the National Center for Education Statistics (NCES), which will increase the potential number of students that may qualify for the Hathaway Scholarship. Recent history supports the expectation of a slight increase in enrollment as the last few years have seen Wyoming's K-12 enrollment increase by around 1 to 1.5 percent per year, most of which is growth in the lower grade levels. According to NCES data, this is expected to continue for the next 5 years and then level off somewhat out to 10 years. The increase in future enrollment will likely result in more students having the opportunity to qualify for the Hathaway Scholarship, though how many qualify and then accept is not known.

Information from the Western Interstate Commission for Higher Education (WICHE) estimates the number of Wyoming high school graduates will increase by 13 percent by 2020, which is closer to 2 percent per year. They also estimate Wyoming's graduation numbers will increase by 39 percent by 2025, which is a much larger increase than the NCES data. In summary, a large increase in the number of graduating

students could result in a larger increase of Hathaway Scholarship recipients.

Another important factor in the number of scholarships is that the 2010-2011 school year was the first year that the graduating high school seniors went through the full success curriculum. In other words, previous classes did not have full implementation of the success curriculum requirements. This may have a number of potential affects on overall Hathaway Scholarship recipient numbers. First, the full adoption of the success curriculum may result in a lower number of students qualifying for the scholarship as it may be possible that fewer high school students try for, or meet, the full success curriculum requirements. Although, there are likely more total students possible to qualify for the scholarship so it could still result in more total students per year. In addition, the students meeting the requirements for the success curriculum may have a higher Hathaway Scholarship retention rate once they enter college if the success curriculum better prepares students for college. The outcome of these different factors does not have a clear result since the full implementation of the success curriculum may change historical trends. This makes the future total number of students receiving the Hathaway Scholarship difficult to predict.

Another unknown factor that may be affected by the success curriculum is the scholarship level that is awarded. In other words, with students now taking the full success curriculum, this may affect the ratio of students qualifying for different scholarship levels (Honors, Performance, Opportunity, and Provisional Opportunity). The ratio of students receiving each scholarship will affect the financial obligation since the dollar amounts differ for scholarship levels. If the number of students qualifying for higher level scholarships (Honors and Performance) increases, the financial obligation of the Hathaway Scholarship Expenditure Account will also increase but it is difficult to predict how the success curriculum may affect the scholarship level ratio.

According to the University of Wyoming, in 2010 they did see an increase in the number of

freshmen students qualifying for the Honors Level Hathaway Scholarship, which has been sustained since then. This could indicate there may be more higher level scholarships in the future, but a few more years of data will likely help determine if this will be the trend.

Keeping these factors in mind, the Wyoming Department of Education (WDE) does provide Hathaway Scholarship financial obligation projections. These projections include future enrollment projections, maintaining the average percentage of students accepting Hathaway Scholarships, average retention rates since the program started and the average ratio of scholarship levels. These projections are used to arrive at an expected future financial obligation to the Hathaway Scholarship Expenditure Account based upon those expected enrollment and retention numbers. (See Attachment A for the WDE estimates). Overall, the WDE numbers show a slight decrease for several years, then a gradual increase in financial obligations out through the 2021-2022 school year. The previously discussed factors, as well as others, could increase or decrease this financial obligation, but without further information on the impact the implementation of the full success curriculum may have, maintaining these averages is likely the best estimate of the future expenditures out of the Hathaway Scholarship Expenditure Account.

Financial Factors Affecting Hathaway Scholarship Expenditures.

The balance in the Hathaway Student Scholarship Endowment Account as of June 30, 2013 was \$518,590,588. See Table 1 for a historical cash balance of the account. When the Endowment Account was first created for the purpose of funding student scholarships, a four percent annual return (including interest, dividends, *as well as capital gains*) was used as a reasonably conservative estimate of returns over the long term. Fluctuations from year to year may happen as a result of market fluctuations, but on average, it was believed that a four percent return was achievable. Estimating future earnings from the endowment account may also be best served by projecting a similar return. Based on the current balance in the Endowment Account, a 4 percent

return would result in around \$20 million in income to the Hathaway Scholarship Expenditure Account, but again this may vary on a year-to-year basis.

Table 1. Historical Balance of the Hathaway Student Scholarship Endowment Account.

Year	FY Cash Balance
6/30/2005	\$3,397,432
6/30/2006	\$209,163,661
6/30/2007	\$298,312,993
6/30/2008	\$419,252,450
6/30/2009	\$465,915,273
6/30/2010	\$473,045,064
6/30/2011	\$473,045,064
6/30/2012	\$501,340,390
6/30/2013	\$518,590,588

Source: LSO Research summary of State Treasurer's Office information.

It is difficult to project the long term return of the Hathaway Scholarship Endowment Account for a number of reasons. The State Treasurer's Office does not project capital gains returns because the nature of the investment market in the short-term can be volatile. The overall return to the account will be composed of interest and dividends, which the State Treasurer's Office does project because of the more certain cash flows, and the uncertain capital gains, which they do not project. The Hathaway Reserve Account is used to help smooth the yearly differences between Endowment Account investment returns and expenditures for scholarships out of the Expenditure Account. In other words, in years of high Endowment Account income, the Expenditure Account has enough revenue to pay for scholarships and the Reserve Account can grow to account for expenditures that will be needed in years of low Endowment Account investment returns. In addition, in times of high investment returns, high Reserve Account balances may then be put into the Endowment Account to increase the corpus of the account. The Legislature may also have the ability to provide additional funding out of the General Fund in the case of extremely low returns that depleted the Reserve Account.

The difficulty arrives in knowing what the long term balance of the expenditures will be versus the long term income from the Endowment Account. In this sense, a conservative estimate may be reasonable over the long term because it may also allow the Endowment Account balance to increase, as well as not decrease Reserve Account balance, allowing for future potential increases in both income and scholarship levels.

Other Potential Factors to Consider

A considerable percentage of tuition and fees that the University of Wyoming and Wyoming community colleges receive are paid for by state scholarship funds; particularly the Hathaway Scholarship. This could mean that an increase in the Hathaway Scholarship Award amounts for each scholarship level could result in an incentive for the University of Wyoming and community colleges to increase their tuition rates to capitalize on potentially higher tuition and fee revenue. In other words, an increase in scholarship award amounts could be an alternative approach to increasing state resources to University of Wyoming and the community colleges by raising tuition and fee rates. The end result would be similar to increasing block grant funding from the state.

In addition, increasing scholarships by the same percentage may not provide the same ratio of tuition coverage for the different scholarship levels as originally provided. A certain percentage increase could be applied to each scholarship level, a flat dollar amount increase could be given, or the Hathaway Scholarship could be tied to some inflation rate.

The Hathaway Scholarship does allow the scholarship recipient to receive funds to assist in the covering of other up to the cost of attendance. Generally speaking, the Hathaway Scholarship

does not provide for the full cost of attendance. Where "cost of attendance" means the sum cost of tuition, mandatory fees, room and board, books and supplies, travel and personal expenses to attend an eligible institution as determined annually by the institution in accordance with W.S. 21-16-1306(b). The result of which is that not all the scholarship money necessarily goes to the higher education institutions.

Table 2, below, displays yearly the tuition and fees for full time students at the University of Wyoming and the Wyoming Community Colleges for the school year the Hathaway Scholarship was first implemented (2006-07) and the current school year (2013-14). It also shows the dollar difference between the Honors Scholarship annual award amount (\$3,200) and the tuition and fee total for both school years. The table shows generally that the Hathaway Scholarship provides for a smaller amount of the tuition and fees in 2013-14, when compared to the initial implementation of the Hathaway Scholarship. It should be noted the tuition at all the community colleges is the same for each school year (\$1,416 in 2006-07; and \$1,896 in 2013-14), the difference in the totals for each year are because of the variation in fees at the different community colleges.

The University of Wyoming indicated their 25% increase from the 2006-07 school year to the 2013-14 school year was a slower rate of increase than the 25% increase in tuition and fees at the University the previous 5 years (2001-02 through 2005-06), showing there are many other important factors that affect tuition rates. It should also be pointed out that the tuition rate at the University is around half of the national average for a four year public institution which was \$8,655 in 2012 according to The College Board, Annual Survey of Colleges.

Table 2. University of Wyoming and Community College Tuition and Fee Information.

College	Tuition and Fees 2006-07	Tuition and Fees 2013-14	Percent Increase	Difference between Honors Scholarship and Tuition and Fees*	
				2006-07	2013-14
University of Wyoming	\$3,515	\$4,404	25.29%	-\$315	-\$1,204
Casper College	\$1,584	\$2,448	54.55%	\$1,616	\$752
Central Wyoming College	\$1,920	\$2,568	33.75%	\$1,280	\$632
Eastern Wyoming College	\$1,800	\$2,472	37.33%	\$1,400	\$728
Laramie County Community College	\$2,004	\$2,736	36.53%	\$1,196	\$464
Northwest College	\$1,928	\$2,653	37.60%	\$1,272	\$547
Northern Wyoming Community College District	\$1,896	\$2,614	37.87%	\$1,304	\$586
Western Wyoming College	\$1,720	\$2,282	32.67%	\$1,480	\$918

Source: LSO Research staff summary of University of Wyoming and Wyoming Community College Commission data.

Note: *Additional Hathaway Scholarship funds in excess of tuition and fees may be used for other specified costs of attendance such as room and board, books, and supplies.

ESTIMATED SCHOLARSHIP INCREASE CONSIDERING THE ABOVE FACTORS

If the factors, except expected future enrollment are held constant, the WDE estimates the total cost of Hathaway Scholarship expenditures to decrease slightly for several years and then slowly increase over time (See Attachment A). These changes are based on the expected enrollment numbers in Wyoming schools increasing and more specifically in graduating senior classes from high school. In addition, future enrollment projections over time have proved to be pretty accurate because they are based upon Census Bureau data, birth rates, and graduation rates, which are all tracked.

Another important factor is the amount of income that is going to be available to spend on Hathaway Scholarships. Financial estimates provided previously, estimated that around \$20 million *may* be available for Hathaway Scholarships based upon a four percent return to the Hathaway Scholarship Endowment Account. The WDE estimates from Attachment A allow for a low *estimated* financial Hathaway Scholarship obligation of \$14.92 million in the 2014-15 school

year up to a high *estimated* financial obligation of \$17.6 million in the 2021-22 school year would result in there being around \$2.4 million to \$5.08 million additional available dollars in the Expenditure Account for increases to scholarship awards.

If the high and low scholarship dollar amount estimates from above (\$14.92 and \$17.6 million) were viewed as an expected high and low total expected expenditure dollar value, this could result in somewhere between a 13.6 percent and 34 percent increase to scholarship award levels. These increases would result in the \$20 million in *estimated* income equaling the \$20 million in *estimated* expenditures. A specific dollar amount increase could also be given to each scholarship level or the future award could be tied to an inflation rate. The variety of other potential factors that could affect the total number of students receiving scholarships (students qualifying for scholarships, students accepting scholarships, scholarship retention rates), as well as scholarship level percentage, may make a conservative scholarship increase reasonable.

The current scholarship levels, per semester, are \$1,600 for the Honors Scholarship, \$1,200 for the Performance Scholarship, and \$800 for both the Opportunity and Provisional Opportunity

Scholarship. Table 3, below, displays what a 5, 10, 15, 20 and 25 percent increase to each scholarship level amount would result in.

Table 3. Scholarship Award Levels, Per Semester, at Different Percentage Increases.

Scholarship Award Level (Current)	5% Increase	10% Increase	15% Increase	20% Increase	25% Increase
Honors (\$1,600 – per semester)	\$1,680	\$1,760	\$1,840	\$1,920	\$2,000
Performance (\$1,200 – per semester)	\$1,260	\$1,320	\$1,380	\$1,440	\$1,500
Opportunity and Provisional Opportunity (\$800 – per semester)	\$840	\$880	\$920	\$960	\$1,000

Source: LSO Research staff.

If you have any further questions, do not hesitate to contact me at 777-7881.

ATTACHMENT A

Hathaway Scholarship Projection Based on Historical K-12 Enrollment 2012-13 through 2021-22

(Projection Date: 12/17/2012)

Sequence	Hathaway School Year	2006 Wyo Grads Entering Hathaway Fall 2006	2007 Wyo Grads Entering Hathaway Fall 2007	2008 Wyo Grads Entering Hathaway Fall 2008	2009 Wyo Grads Entering Hathaway Fall 2009	2010 Wyo Grads Entering Hathaway Fall 2010	2011 Wyo Grads Entering Hathaway Fall 2011	2012 Wyo Grads Entering Hathaway Fall 2012	2013 Wyo Grads Entering Hathaway Fall 2013	2014 Wyo Grads Entering Hathaway Fall 2014	2015 Wyo Grads Entering Hathaway Fall 2015	2016 Wyo Grads Entering Hathaway Fall 2016	2017 Wyo Grads Entering Hathaway Fall 2017	2018 Wyo Grads Entering Hathaway Fall 2018	2019 Wyo Grads Entering Hathaway Fall 2019	2020 Wyo Grads Entering Hathaway Fall 2020	2021 Wyo Grads Entering Hathaway Fall 2021	Wyo HS Total	GED + Home Schooled + Out-Of-State HS + WYO Grads Waiting 1-2 Years (Future Est. = 11.5% of Wyo HS Totals)	Summer School (Future Est. = 0.3%)	Grand Total
Year 1	2006-07	\$2,840,983																\$2,840,983	\$135,090	N/A	\$2,976,073
Year 2	2007-08	\$2,814,841	\$4,375,538															\$7,190,379	\$498,110	\$8,366	\$7,696,855
Year 3	2008-09	\$2,090,581	\$3,137,949	\$4,530,182														\$9,758,712	\$913,351	\$22,639	\$10,694,702
Year 4	2009-10	\$2,115,908	\$2,229,804	\$3,241,643	\$4,597,111													\$12,184,466	\$1,402,346	\$34,476	\$13,621,288
Year 5	2010-11	\$574,749	\$2,299,827	\$2,462,011	\$3,315,265	\$4,720,268												\$13,372,120	\$1,558,307	\$34,341	\$14,964,768
Year 6	2011-12	\$249,029	\$698,521	\$2,272,894	\$2,425,408	\$3,313,712	\$4,204,380											\$13,163,944	\$1,513,854	\$52,945	\$14,730,743
Year 7	2012-13		\$241,172	\$605,003	\$2,349,662	\$2,275,771	\$3,391,457	\$4,719,630										\$13,582,695	\$1,562,010	\$40,748	\$15,185,454
Year 8	2013-14			\$258,223	\$639,065	\$2,244,938	\$2,359,072	\$3,284,293	\$4,589,170									\$13,368,761	\$1,537,408	\$40,106	\$14,946,275
Year 9	2014-15				\$249,837	\$577,406	\$2,331,539	\$2,282,704	\$3,195,512	\$4,706,946								\$13,343,945	\$1,534,554	\$40,032	\$14,918,530
Year 10	2015-16					\$213,569	\$626,850	\$2,255,141	\$2,217,653	\$3,280,407	\$4,842,819							\$13,436,439	\$1,545,190	\$40,309	\$15,021,939
Year 11	2016-17						\$213,569	\$606,974	\$2,189,811	\$2,278,885	\$3,372,751	\$5,071,147						\$13,733,136	\$1,579,311	\$41,199	\$15,353,646
Year 12	2017-18							\$213,569	\$587,080	\$2,252,763	\$2,335,952	\$3,528,838	\$5,138,669					\$14,056,871	\$1,616,540	\$42,171	\$15,715,581
Year 13	2018-19								\$213,569	\$602,977	\$2,308,853	\$2,444,046	\$3,578,015	\$5,272,947				\$14,420,406	\$1,658,347	\$43,261	\$16,122,014
Year 14	2019-20									\$213,569	\$621,352	\$2,420,584	\$2,487,237	\$3,675,110	\$5,401,773			\$14,819,625	\$1,704,257	\$44,459	\$16,568,340
Year 15	2020-21										\$213,569	\$653,924	\$2,457,723	\$2,556,102	\$3,759,119	\$5,537,245		\$15,177,681	\$1,745,433	\$45,538	\$16,968,648
Year 16	2021-22											\$213,569	\$661,892	\$2,522,620	\$2,609,791	\$3,856,344	\$5,878,032	\$15,742,248	\$1,810,359	\$47,227	\$17,599,834

Actual

Forecasted

Actual scholarships
Forecasted scholarships

ATTACHMENT A

